

## Message Text

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TO AMEMBASSY BUDAPEST PRIORITY  
INFO AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY BELGRADE  
AMEMBASSY WARSAW

UNCLAS STATE 119882

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SUBJECT: SENATE HEARINGS ON HUNGARIAN TRADE AGREEMENT

REF: STATE 096847

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1. SUMMARY: THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE SENATE FINANCE COMMITTEE HELD PUBLIC HEARINGS ON THE TRADE AGREEMENT ON MAY 9. QUESTIONING, PARTICULARLY FROM SENATOR DOLE, WAS MORE CONTENTIOUS THAN IT WAS AT THE HOUSE HEARINGS. NONE OF THE WITNESSES SPOKE IN OPPOSITION TO THE AGREEMENT. DISCUSSION CENTERED AROUND HUNGARY'S EMIGRATION POLICY AND OTHER HUMAN RIGHTS ISSUES, THE POTENTIAL EFFECT OF THE AGREEMENT ON US EXPORTS, AND THE DANGER OF MARKET DISRUPTION. ROCKWELL INTERNATIONAL EXPRESSED UNDOCUMENTED FEARS OF DISRUPTION OF US HEAVY AXLE MARKET. A LAWYER SUBMITTED TESTIMONY REGARDING AN UNSETTLED CLAIM, STATING HIS

OPPOSITION TO THE TRADE AGREEMENT UNTIL THIS CLAIM IS SETTLED BY GOH. THE SUBJECT OF LIGHTBULBS WAS RAISED ONLY BY THE ACTION-TUNGSRAM WITNESS. END SUMMARY.

2. SENATOR RIBICOFF CHAIRING THE SUBCOMMITTEE WAS PRESENT ALMOST THROUGHOUT THE PROCEEDINGS. HE WAS JOINED FROM TIME TO TIME BY SENATORS HANSEN AND DOLE. FEW QUESTIONS WERE ASKED OF ANY BUT THE ADMINISTRATION WITNESSES. THE ADMINI-

STRATION WAS REPRESENTED BY ASSISTANT SECRETARY VEST AND BY JOHN CROOK FROM L/EUR; BY EDWARD STROH, ACTING DIRECTOR OF THE COMMERCE DEPARTMENT'S BUREAU OF EAST-WEST TRADE; BY DOUG MCMINN FROM STR; AND BY MARJORIE SEARING, DIRECTOR, OFFICE OF EAST-WEST ECONOMIC POLICY, TREASURY. MR. VEST SUMMARIZED HIS TESTIMONY FOR THE COMMITTEE. THE OTHER AGENCIES SUBMITTED THEIR TESTIMONY FOR THE RECORD. OTHER WITNESSES WERE:

ISTVAN GEREKEN, EXECUTIVE SECRETARY, COORDINATING COMMITTEE OF HUNGARIAN ORGANIZATIONS IN NORTH AMERICA;

RON CERINO SPEAKING FOR ALLAN MERKEN, PRESIDENT, ACTION-UNCLASSIFIED

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TUNGSRAM, INC.;

A.P. RONAN, PRESIDENT, ON-HIGHWAY GROUP, ROCKWELL INTERNATIONAL;

MAX BERRY, EAST-WEST TRADE COUNCIL;

Z. MICHAEL SZAZ, AMERICAN FOREIGN POLICY INSTITUTE; AND

ROBERT J. MCMENAMIN, VICE CHAIRMAN, US SECTION, HUNGARIAN-US ECONOMIC COUNCIL.

IN ADDITION, STATEMENTS WERE SUBMITTED FOR THE RECORD BY SENATOR DOLE AND MR. SAMUEL HERMAN ON BEHALF OF THE ESTATE OF RICHARD STEIN.

3. IN SUMMARIZING HIS TESTIMONY, VEST EMPHASIZED THAT IT IS IN US INTEREST TO DEVELOP RELATIONS WITH THE COUNTRIES OF EASTERN EUROPE. HE SAID WE HAVE DISCUSSED WITH HUNGARY ITS LAWS AND PERFORMANCE ON EMIGRATION AND ITS IMPLEMENTATION OF CSCE. WE FIND THAT HUNGARY HAS THE MOST LIBERAL RECORD IN EASTERN EUROPE, BUT WE HAVE EMPHASIZED TO THE HUNGARIAN GOVERNMENT THAT CONTINUED LIBERAL PERFORMANCE WILL BE ESSENTIAL TO A CONTINUATION OF THE DEVELOPMENT OF OUR TRADE RELATIONS. AFTER VEST CONCLUDED HIS REMARKS, RIBICOFF ASKED WHICH US EXPORTS WOULD INCREASE AND WHAT WE HAVE DONE TO HEAD OFF ANY POSSIBLE MARKET DISRUPTION THAT MIGHT RESULT FROM THE IMPLEMENTATION OF THE TRADE AGREEMENT.

STROH EXPLAINED THAT IT IS DIFFICULT TO PREDICT PRECISELY WHICH US EXPORTS WOULD INCREASE, BUT IN GENERAL, WE EXPECT THAT MANUFACTURED PRODUCTS WOULD SHOW THE GREATEST GROWTH. STROH SAID THAT THE QUESTION OF MARKET DISRUPTION HAD BEEN DISCUSSED IN DETAIL WITH THE HUNGARIANS DURING THE NEGOTIATIONS AND MENTIONED THE VISIT OF TREASURY DAS EHRENHAFT TO BUDAPEST IN APRIL. RIBICOFF ASKED TWICE WHETHER THE TRADE AGREEMENT WOULD SECURE FOR US FIRMS THE SAME TREATMENT

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ACCORDED TO HUNGARY'S OTHER WESTERN TRADING PARTNERS. STROH ASSURED HIM THAT IT WOULD, AND NOTED THAT WE HAD RECEIVED COMPLAINTS IN THE PAST FROM US FIRMS THAT THE DISCRIMINATORY TARIFF MADE IT DIFFICULT FOR THEM TO COMPETE EFFECTIVELY IN HUNGARY'S MARKETS. RIBICOFF ASKED WHETHER THE US HAS A POLICY OF PUBLICIZING TO US BUSINESSES OPPORTUNITIES THAT MAY EXIST FOR THEM IN THE HUNGARIAN MARKET. STROH SAID THAT WE DID AND ADDED THAT THE US PARTICIPATED IN THE BUDAPEST FAIR AND WILL SEND FOUR TECHNICAL SALES SEMINARS TO HUNGARY THIS YEAR. RIBICOFF ASKED WHETHER US CITIZENS HAD ANY OUTSTANDING UNSETTLED CLAIMS AGAINST HUNGARY. CROOK SAID THAT HE WAS NOT AWARE OF ANY BUT OCCASIONAL POSSIBLE CLAIMS ARE BROUGHT TO OUR ATTENTION AS A SUBJECT FOR BILATERAL DISCUSSIONS. ALL OUTSTANDING CLAIMS HAD BEEN SETTLED UNDER THE TERMS OF A CLAIMS SETTLEMENT SIGNED IN 1973. SENATOR HANSEN WANTED TO KNOW BY HOW MUCH US DUTIES WOULD BE REDUCED AND WHETHER WE EXPECTED THE US TRADE SURPLUS WITH HUNGARY TO CONTINUE. STROH REPLIED THAT DUTIES ON VARIOUS PRODUCTS WILL BE REDUCED BY VARYING AMOUNTS. HE SAID THAT WE EXPECT THE SURPLUS TO CONTINUE IN THE SHORT RUN ALTHOUGH OVER TIME IT WOULD BE BETTER FOR BOTH COUNTRIES TO BALANCE THEIR TRADE.

4. SENATOR DOLE, SUMMARIZING THE TESTIMONY HE SUBMITTED FOR THE RECORD, SAID HE WAS STILL CONCERNED ABOUT THE RETURN OF THE CROWN TO HUNGARY. THE ADMINISTRATION HAD SAID THAT THE RETURN WOULD HELP IMPROVE THE HUMAN RIGHTS SITUATION IN HUNGARY. DOLE SAID HE WAS NOT AWARE OF ANY IMPROVEMENT. KADAR AND THE SOVIET TROOPS WHO HAD INSTALLED HIM IN 1956 ARE STILL IN AUTHORITY. THE COMMUNISTS HAVE BEEN UNABLE TO CONTROL THE PEOPLE'S INTEREST IN RELIGION SO THEY HAVE CONTROLLED THE HIERARCHY INSTEAD; THERE IS NO CURRENT LEADER

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OF THE STATURE OF MINDSZENTY. PASSPORTS AND EXIT VISAS ARE STILL DENIED TO MANY HUNGARIANS AND SOME WHO HAVE EMIGRATED ARE NOT PERMITTED TO RETURN FOR VISITS. VEST POINTED OUT THAT THERE HAD BEEN A LONG DEBATE BEFORE THE CROWN WAS RETURNED, BETWEEN THOSE WHO FELT THAT IT WOULD BE MANIPULATED BY THE COMMUNIST GOVERNMENT AND THOSE WHO

THOUGHT IT WOULD SERVE AS A SYMBOL OF HUNGARIAN NATIONHOOD. IN FACT, SINCE ITS RETURN IT HAS BEEN DISPLAYED AND VIEWED AS A SYMBOL OF HUNGARIAN UNITY AND INDEPENDENCE AND HAS BEEN SO INTERPRETED BY THE HUNGARIAN MEDIA. THE HUNGARIAN GOVERNMENT HAS BEEN RESPONSIVE ON FAMILY REUNIFICATION REQUESTS. WE HAVE ONLY SIX OUTSTANDING CASES. OTHER WESTERN GOVERNMENTS TOGETHER HAVE ONLY ABOUT THIRTY. THERE IS SOME FREEDOM OF RELIGION. TAKING THE JEWISH RELIGION AS AN EXAMPLE, THERE IS A JEWISH RABBINICAL SCHOOL IN BUDAPEST AND THERE ARE THIRTY ACTIVE SYNAGOGUES IN HUNGARY. THE CHIEF RABBI TOOK PART IN THE CEREMONIES MARKING RETURN OF

THE CROWN. JEWISH LEADERS HAVE TOLD US THAT ABOUT TEN FAMILIES EMIGRATE TO ISRAEL ANNUALLY AND MANY HUNGARIANS VISIT ISRAEL EACH YEAR. VEST ADDED THAT HE WOULD NOT COMMENT ON CARDINAL MINDSZENTY AND LEKAI. DOLE ASKED WHETHER THERE ARE RESTRICTIONS ON PASSPORTS. VEST RESPONDED THAT THERE IS NO HARASSMENT OF PASSPORT APPLICANTS. THERE ARE NO UNUSUALLY HIGH FEES. HE ADDED THAT 350,000 HUNGARIANS TRAVELED TO THE WEST IN 1977. SENATOR DOLE INQUIRED ABOUT RESTRICTIONS ON EMIGRANTS TAKING OUT PROPERTY. MR. VEST NOTED THE \$1000 LIMITATION AND SUGGESTED THAT IN A COMMUNIST NATION ALL PROPERTY IS CONSIDERED ULTIMATELY TO BELONG TO THE STATE. HE ADDED THAT THIS DID NOT, IN OUR EXPERIENCE, SEEM TO BE A MAJOR BARRIER TO EMIGRATION. HE SUGGESTED THAT THE LIBERAL HUNGARIAN TRAVEL POLICY, RELATIVELY PROSPEROUS ECONOMIC SITUATION, AND THE TIES OF HUNGARIANS, WITH THEIR UNIQUE LANGUAGE, TO THEIR HOMELAND, ADD UP TO LITTLE EMIGRATION PRESSURE. DOLE ASKED ABOUT FREEDOM OF THE PRESS. VEST SAID THAT MEDIA ARE STATE CONTROLLED BUT WE UNCLASSIFIED

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HAVE HAD A BROAD EXCHANGE OF TELEVISION PROGRAMS WITH HUNGARY. DEBATES INCLUDING WESTERN EXPERTS HAVE BEEN BROADCAST ON THE STATE-OWNED TV. DOLE THEN COMMENTED FROM HIS EXPERIENCE AT BELGRADE THAT BY COMMUNIST STANDARDS THE HUNGARIANS HAVE MADE SOME PROGRESS BUT BY WESTERN STANDARDS THEY STILL HAVE A LONG WAY TO GO. HE ASKED HOW THE TRADE AGREEMENT WILL BENEFIT THE PEOPLE OF HUNGARY. STROH SAID THAT THE MAIN EFFECT OF THE AGREEMENT WILL BE TO INCREASE BILATERAL TRADE AND WE HOPE THAT THIS WILL HAVE SOME EFFECT ON THE HUNGARIAN STANDARD OF LIVING.

5. OTHER TESTIMONY: SZAZ GAVE THE SUBCOMMITTEE THE SAME TESTIMONY HE HAD GIVEN BEFORE THE HOUSE TRADE SUBCOMMITTEE AND SAID HIS INSTITUTE SUPPORTS MFN FOR HUNGARY. GEREKEN WAS MORE NEGATIVE. HE SAID HIS COMMITTEE COULD NOT OPPOSE MFN TO HUNGARY BECAUSE MFN MIGHT BE OF BENEFIT TO THE HUNGARIAN PEOPLE. HE ASKED THAT THE USG TRY TO MONITOR THE EXTENT TO WHICH THE AGREEMENT BENEFITS THE HUNGARIAN PEOPLE BY WATCHING SUCH FACTORS AS THE EFFECT OF US TRADE ON THE HUNGARIAN STANDARD OF LIVING. GEREKEN SUGGESTED THAT PER-

FORMANCE ON HUMAN RIGHTS ISSUES OTHER THAN EMIGRATION SHOULD BE INCLUDED AS PART OF THE ANNUAL REVIEW. CERINO SAID THAT MFN WOULD ALLOW ACTION-TUNGSRAM TO IMPORT HUNGARIAN MACHINERY AND EXPAND ITS OPERATION MORE RAPIDLY. THIS WOULD GENERATE JOBS. RONAN SAID THAT ROCKWELL DOES NOT WANT TO CONTEST THE APPROVAL OF THE AGREEMENT, BUT WOULD LIKE TO ALERT THE CONGRESS TO THE POSSIBLE DISRUPTION TO THE US MARKET FOR HEAVY TRUCK AXLES BY INCREASED IMPORTS FROM HUNGARY ONCE THE DUTY IS REDUCED. THE ROCKWELL SUBMISSION CLAIMS WITHOUT SUPPORTING EVIDENCE THAT "THE HUNGARIAN MANUFACTURER, BEING STATE-OWNED, ENJOYS LOWER LABOR

RATES, DOES NOT NEED TO PRICE PRODUCTS FOR PROFIT AND DOES UNCLASSIFIED

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NOT NEED TO BE CONCERNED WITH THE DEPRECIATION COSTS OF PLANT AND EQUIPMENT AS DO US MANUFACTURERS". ROCKWELL REQUESTS THAT SPECIAL ACTION BE TAKEN IN ADVANCE OF THE APPROVAL OF THE AGREEMENT TO FORESTALL POTENTIAL "DISASTROUS EFFECTS" ON THE US AXLE MARKET. THE SUBCOMMITTEE ASKED NO QUESTIONS OF RONAN BUT SAID EXECUTIVE BRANCH WOULD MONITOR THIS SITUATION. BERRY AND MCMENAMIN MADE THE USUAL ARGUMENTS ON BEHALF OF THE AGREEMENT. MCMENAMIN SAID HIS ONLY RESERVATION WAS THAT THE AGREEMENT HAD TO BE REVIEWED ANNUALLY. A LONGER DURATION WOULD BE HELPFUL.

6. SAMUEL HERMAN, A LAWYER REPRESENTING THE ESTATE OF RICHARD STEIN, SUBMITTED A LETTER FOR THE RECORD THAT OPPOSES APPROVAL OF THE AGREEMENT UNTIL THE HUNGARIAN GOVERNMENT PAYS SOME COMPENSATION FOR ASSETS NATIONALIZED WITHOUT COMPENSATION FROM STEIN. HERMAN DID NOT APPEAR BEFORE THE SUBCOMMITTEE.  
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